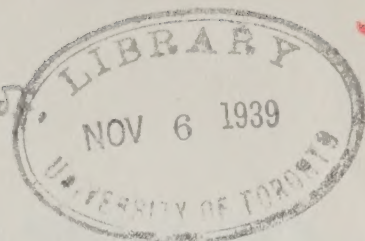


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PRINCIPLES OF RAILWAY RATE MAKING

During the cross-examination of Witness Argo it was suggested by Counsel to the Commission the Railways should cover the principle adopted in making commodity freight rates, and also explain how railway truck competitive rates are arrived at.

While railway freight rates are not under attack in this proceeding, the Railways desire to be helpful to this Commission and respectfully submit the following:

The Board of Railway Commissioners for Canada have conducted an investigation into railway freight rates in Eastern Canada on various occasions, for example:

1. International Rates Case, covered by Board's Order No. 3258 dated Ottawa, 6th July, 1907.
2. Western Rates Case of 1914, reported in "Canadian Railway Cases", Volume 17, pages 123 to 263.
3. Eastern Rates Case, covered by Board's General Order No. 167 dated 3rd July, 1916 - reported in "Judgements, Orders, Regulations and Rulings of the Board" Volume 6, pages 13 to 256.
4. General Freight Rates Investigation, Board's General Order No. 448, dated 26th August, 1927 - reported in "Canadian Railway Cases", Volume 33, page 127.

In view of these proceedings it can be stated the general level of rail freight rates in Eastern Canada, and which reflect water competition, can be considered reasonable.

PRINCIPLE OF MAKING COMMODITY RATES:

Railway commodity rates are not based upon any one principle. Many different factors require to be taken into consideration. Except in the case of movements between any two points on one railway, no individual actually makes a commodity rate, as the railway commodity rate structure is very highly sensitive and competitive. It is necessary the Railways inquire very carefully into all the conditions involved in applications for establishment of new commodity rates. The Railways must avoid unjust discrimination as between commodities, places, and shippers. Of the many factors that are considered, the following are typical:

Nature of Commodity:

Commodities are divided into groups, as in the Canadian Classification and when working on the establishment of commodity

rates, one of the factors the Railways consider is the class to which the commodity is assigned in the Classification, i.e., whether it is a high or a low class rate commodity.

Distance:

Distance is a factor considered in establishment of commodity rates, particularly in cases where competition is absent. Generally speaking, normal class rates prescribed by the Board are based on mileage, and it follows in the establishment of commodity rates the distance factor should be considered.

Volume:

This factor is also considered. It is in the interest of the railway carriers, when offered a commodity in large volume, to establish a rate per hundred pounds on a lower per hundred pound basis than on the same commodity when offered in smaller quantities; in other words, the higher minimum increases the carriers' per car earning.

Weight vs Bulk:

As railway rates are quoted at a certain figure per 100 lbs. or per ton and only a limited quantity of bulk traffic can be loaded in a freight car apart altogether from the willingness of the shipper to give the railway volume, it is necessary in order that the Railways will secure reasonable per car earnings, to charge on bulky traffic a higher rate per 100 lbs. than on traffic of a less bulky nature.

Relativity or Commercial Competition:

As the same class of traffic is offered the Railways at different points by shippers who are in competition one with the other in reaching their markets, the Railways, in order to avoid claims of unjust discrimination, place these shippers on the same relative basis, i.e., the commodity rates will bear the same relationship to the class rates that would otherwise apply.

Carrier Competition:

In cases where a railway having the short line between two common or competitive points establishes a commodity rate, and a competing line has a longer mileage between the same two points, or two railways by means of a joint route can serve the same two points, such competing railway or railways may adopt and publish as theirs, the

commodity rate between those points originally established by the first mentioned railway.

Actual Water Competition:

This principle is generally recognized in making railway freight rates. In many cases lake-and-rail and also all-rail rates are built up on recognized arbitraries over the rates established between the same points by the water lines. In cases where agreed differentials do not exist, the actual water rate plus the amount which might require to be paid for other transportation service, either at point of origin, destination, or at both points, is used in arriving at rate.

Potential Water Competition:

There are cases where traffic offers between points where there is no actual water service rendered, but where facilities are available or can be readily made available for such traffic. In negotiating with shippers for the establishment of rates on such traffic, this condition is given consideration.

Per Ton- and Per Car- Mile Earnings:

When Railways are offered traffic, the nature of which or the competition it requires to meet, calls for the establishment of a low rate, they give consideration to the earning per ton- and per car- mile such rate would produce in comparison to their average per ton- and per car- mile earnings.

There is a Committee known as the Freight Committee of the Canadian Freight Association, to whom such applications are referred for consideration. Generally speaking, (except in the case of meeting truck competition, and which I will later refer to) applications come to the Railways from shippers or receivers of freight traffic. Such shippers or consignees, when making the application, are required to give all the information they can with respect to the commodity for which rate is required and the competition that commodity will require to meet in the market to which same is to be shipped. The information supplied by the shipper is, of course, supplemented by investigation of the carrier handling the application. The carrier to whom the application has been made, and who has conducted the investigation, is known as the "proponent."

carrier. That carrier refers the application with all the facts in connection therewith to the Chairman of the Freight Committee. The latter mimeographs the application, sends a copy to every member of the Committee so that each member may analyze the application and come prepared to discuss same at the regular monthly meetings of the Committee. The proponent carrier, in submitting the application, is expected to give the following information:

Commodity:
From:
To:
Present Rate:
Proposed Rate:
Present Minimum Weight:
Proposed Minimum Weight:
Basis for Present Rate:
Basis for Proposed Rate:
Routing:
Justification for Proposed Rate:
Concurrence:

Under the heading "Present Rate" the present rate is shown, with tariff reference, while under the heading "Basis for Present Rate" explanation is made as to whether it is a standard mileage class rate, special class rate (such as Schedule "A") commodity mileage rate, special commodity rate, and if based on a percentage of the class rate, such percentage is shown.

The proposed rate is shown. Under the heading "Basis for Proposed Rate" such is shown, if the rate proposed has been figured on some already established basis, while under the heading "Justification for Proposed Rate" the reason for the proposed rate is given in as complete detail as possible.

Where more than one Railway is involved in the establishment of the proposed rate and it is possible for the proponent carrier to secure the concurrence of one or more of such railways to the proposal before filing same with the Chairman of the Committee, the concurrence of such line or lines is shown for the convenience of all the members of the Committee.

Prior to each monthly meeting the Chairman of the Committee prepares a list or docket of all the subjects to be discussed at the monthly meeting and also makes distribution of such docket so that all the members of the Committee will have before

them a proper list of all the subjects to be discussed.

As each application comes up for discussion the Chairman asks for the views of the Committee. If the members of the Committee have no objection to the proposal, i.e., they consider the application a reasonable one in view of all the facts submitted surrounding same, it is approved, but if a member or members finds something wrong with the proposal or has some good and valid reason for objecting to same, proposal is either amended to remove the objection or the application denied.

While the practice I have referred to appears to involve a rather lengthy process, shippers, generally, are acquainted with this process and naturally give the Railways all the advance notice possible prior to the actual necessity for the establishment of the commodity rate. However, in cases of emergencies, while the same consideration is given to the establishment of the proposed rate, the proposal is handled between the interested carriers either by letter, or, if the emergency demands, by telegraph, and when concurrence secured, tariff action is immediately taken and necessary record of the establishment of the rate recorded with the Freight Committee of the Canadian Freight Association at the next monthly meeting.

MAKING TRUCK COMPETITIVE RATES:

The truck competitive rates established by the Railways are not on any specific or scientific basis. Such rates, when published, are earmarked in the Railway Companies' Tariffs as established to meet truck competition, while in the case of the commodity rates I have already referred to, they are established as the result of applications received from shippers or consignees. Truck competitive Rates are made by the Railways, usually after they have lost business to the highway transport companies, although in some instances they are made to meet quotations made by highway transport companies, and which quotations have come to the attention of the Railway Companies' forces in the field. It is quite obvious, therefore, rates established by Railway Companies to meet highway competition are simply the rates the Railways find it necessary to publish if they are to regain or retain traffic.

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In making carload truck competitive rates the Railways, of course, require to give consideration to whether the traffic will be shipped by a shipper located on a railway private siding and whether or not the consignee will also be so located. Where traffic originates, or is destined to a warehouse or plant not served by a private siding, the Railway Company requires to take into consideration the cost to the shipper or receiver of transporting the freight to or from their team tracks in meeting a rate available on the said traffic via highway, and which would, of course, include pick-up and delivery. The Railways, however, in reducing their carload rates to meet truck competition, endeavour wherever possible to secure a higher minimum weight per car than applicable in connection with the existing rail rate, in order to maintain, as far as possible, their revenue per car.
